

Message Text

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ORIGIN STR-07

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APPROVED BY STR:RHEIMLICH
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TO AMEMBASSY TOKYO IMMEDIATE
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AMEMBASSY BONN IMMEDIATE
AMEMBASSY COPENHAGEN IMMEDIATE
AMEMBASSY DUBLIN IMMEDIATE
AMEMBASSY LUXEMBOURG IMMEDIATE
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SUBJECT: STEEL RESOLUTION

REF: (A) PARIS 23864; (B) PARIS 23992; (C) PARIS 24526
(D) PARIS 23821; (E) PARIS 22625

1. REFTELS (A), (B), AND (C) TRANSMITTED CURRENT OECD

SECRETARIAT VERSION OF STEEL RESOLUTION REFLECTING RESULTS OF DISCUSSIONS IN JULY 26-27 OECD AD HOC STEEL GROUP MEETING. AS NOTED IN REFTEL (D), JAPANESE INSISTED ON INSERTION OF WORD LOWEST BEFORE QUOTE FULL COSTS CLOSE QUOTE OR, ALTERNATIVELY, REFERENCE TO MOST EFFICIENT PRODUCING COUNTRY AFTER QUOTE PROFIT CLOSE QUOTE IN PARAGRAPH 8A6 OF STEEL RESOLUTION TEXT. AT JULY 26-27 AD HOC STEEL GROUP MEETING, U.S. DELEGATION OPPOSED BOTH OF THESE JAPANESE PROPOSALS, AND IT WAS AGREED TO RECONSIDER THE ENTIRE PARAGRAPH 8A6 IN CAPITALS.

2. AFTER CONSIDERING PARA. 8A6 IN WASHINGTON, WE HAVE COME UP WITH NEW LANGUAGE WHICH WE REQUEST EMBASSY TO CIRCULATE TO APPROPRIATE GOJ OFFICIALS, AS FOLLOWS:

QUOTE SUCH PRICE GUIDELINES SHOULD NEITHER EXCEED THE LOWEST NORMAL PRICES IN THE SUPPLYING COUNTRY OR COUNTRIES WHERE NORMAL CONDITIONS OF COMPETITION ARE PREVAILING, NOR EXCEED THE SUMS OF THE FULL COSTS OF PRODUCTION (INCLUDING OVERHEAD) AND PROFIT, AS DETERMINED OVER A REASONABLE PERIOD OF RECENT TIME, IN THE SUPPLYING COUNTRY OR COUNTRIES; DELIVERY COSTS TO THE IMPORTING MARKET AND IMPORT DUTIES MAY BE INCLUDED IN THE EVENT THAT PRICE GUIDELINES ARE ESTABLISHED ON A DELIVERED BASIS. CLOSE QUOTE

3. AS MISSION WILL RECALL, SECRETARIAT TEXT OF STEEL LIMITED OFFICIAL USE

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RESOLUTION CIRCULATED PRIOR TO JULY 26-27 AD HOC STEEL GROUP MEETING (REFTEL E) CONTAINED PARA. 8A6 LANGUAGE WHICH IMPLIED THAT PRICE GUIDELINES COULD NOT EXCEED THE LOWER OF LOWEST NORMAL PRICES OR THE SUMS OF THE FULL COSTS OF PRODUCTION. CURRENT PARA. 8A6 LANGUAGE IMPOSES A LESS STRINGENT CONSTRAINT WITH RESPECT TO PRICE GUIDELINES BECAUSE IT IMPLIES THAT THEY CAN EXCEED LOWEST NORMAL PRICES OR CAN EXCEED THE SUMS OF THE FULL COSTS OF PRODUCTION, WHICHEVER IS HIGHER. HOWEVER, FULL COSTS OF PRODUCTION CANNOT BE HIGHER THAN QUOTE NORMAL PRICES CLOSE QUOTE, AS DEFINED IN THE INTERNATIONAL ANTIDUMPING COMMITTEE.

4. WE ARE WILLING TO REVERT TO THE MORE STRINGENT FORMULATION WHEREBY PRICE GUIDELINES MUST NOT EXCEED THE LOWER OF EITHER LOWEST NORMAL PRICES OR THE SUMS OF THE FULL COSTS OF PRODUCTION IF THE JAPANESE WILL AGREE TO ACCEPT THE DELETION OF BOTH QUOTE LOWEST CLOSE QUOTE AND QUOTE MOST EFFICIENT PRODUCING COUNTRY CLOSE QUOTE. FYI: WE CAN NOT ACCEPT EITHER OF THE JAPANESE PARA. 8A6 INSERTIONS BECAUSE INCLUSION OF EITHER INSERTION WOULD, IN OUR VIEW, PRECLUDE THE POSSIBILITY OF ESTABLISHING DIFFERENT PRICE

GUIDELINES FOR PARTICULAR EXPORTING COUNTRIES THAT WERE BASED ON THAT COUNTRY'S COSTS OF PRODUCTION (I.E. A MULTI-TIER TRIGGER PRICE SYSTEM). WHILE WE HAVE NO INTENTION, AT THE PRESENT TIME, OF ESTABLISHING A MULTI-TIER TRIGGER PRICE SYSTEM, WE HAVE MADE A COMMITMENT TO THE DOMESTIC STEEL INDUSTRY THAT THE INTERNATIONAL STEEL RESOLUTION WILL NOT PRECLUDE SUCH A POSSIBILITY SINCE IT WOULD BE PERMITTED UNDER THE CODE AND DOMESTIC LAW. IF THE STEEL RESOLUTION PRECLUDES THE POSSIBILITY OF ESTABLISHING A MULTI-TIER TRIGGER PRICE MECHANISM, DOMESTIC INDUSTRY AND UNION ACCEPTANCE OF THE STEEL RESOLUTION AND OF MTN STEEL TARIFF CUTS WOULD BE IN SERIOUS JEOPARDY. THIS WOULD BE EXTREMELY UNFORTUNATE AS THE INDUSTRY AND UNION NOW PUBLICALLY SUPPORT THE LIMITED OFFICIAL USE

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ARRANGEMENT AND APPEAR WILLING TO LIVE WITH SOME TARIFF REDUCTION IN THE MTN. END FYI

5. AS EXPLAINED IN JULY 27 AD HOC STEEL GROUP DISCUSSIONS, JAPANESE RATIONALE FOR THEIR PROPOSED PARA. 8A6 CHANGES WAS CONCERN THAT AN IMPORTING COUNTRY COULD APPLY PRICE GUIDELINES BASED ON THE PRODUCTION COSTS OF A LESS EFFICIENT SUPPLYING COUNTRY TO THE EXPORTS OF A MORE EFFICIENT SUPPLYING COUNTRY. HYPOTHETICAL EXAMPLE WOULD BE AUSTRALIAN PRICE GUIDELINES BASED ON EC RATHER THAN JAPANESE COSTS OF PRODUCTION. IF THE JAPANESE REITERATE THIS POINT IN RESPONSE TO OUR PROPOSED PARA. 8A6 LANGUAGE, YOU SHOULD NOTE THAT THE U.S. TRIGGER PRICE MECHANISM AND THE EC BASIC PRICE SYSTEM ARE BOTH BASED ON THE COSTS OF PRODUCTION OF THE MOST EFFICIENT FOREIGN SUPPLIER OF PARTICULAR STEEL PRODUCTS. MOREOVER, UNDER BOTH THE U.S. TRIGGER PRICE MECHANISM AND LAW INDIVIDUAL PRODUCERS CAN ALWAYS SELL UNDER GUID ELINE PRICES BY ESTABLISHING THAT FAIR VALUE IS LESS THAN THE GUIDELINE PRICES. WE UNDERSTAND THE EC SYSTEM IS THE SAME. THUS, THESE TWO SYSTEMS OF PRICE GUIDELINES HAVE ESTABLISHED A CLEAR PRECEDENT FOR USE OF THE MOST EFFICIENT SUPPLYING COUNTRY AND ALLOW INDIVIDUAL SUPPLIERS TO DEMONSTRATE THAT THEY CAN SELL AT NORMAL VALUE, IN THE SENSE OF THE INTERNATIONAL ANTI-DUMPING CODE, AT EVEN LOWER PRICES. IT WOULD BE EXTREMELY DIFFICULT FOR A MEMBER OF THE INTERNATIONAL STEEL COMMITTEE TO DEPART FROM THIS PRECEDENT WITHOUT RECEIVING SUBSTANTIAL INTERNATIONAL CRITICISM AND WITHOUT PROVIDING A STRONG JUSTIFICATION TO THE INTERNATIONAL STEEL COMMITTEE FOR SUCH A DEPARTURE. EMBASSY SHOULD ALSO EXPLAIN TO GOJ THAT THE APPLICATION OF PRICE GUIDELINES BASED ON THE PRODUCTION COSTS OF A LESS EFFICIENT SUPPLIER LIMITED OFFICIAL USE

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TO THE EXPORTS OF A MORE EFFICIENT SUPPLIER WOULD BE INCONSISTENT WITH ARTICLE 8D OF THE INTERNATIONAL ANTI-DUMPING CODE WHICH REQUIRES THAT THE BASIC PRICE CAN NOT EXCEED THE LOWEST NORMAL PRICE. AS NOTED ABOVE, OUR PROPOSED PARA. 8A6 LANGUAGE WOULD REQUIRE THAT PRICE GUIDELINES NOT EXCEED THE LOWEST NORMAL PRICE EVEN IF ACTIONS ARE NOT BASED ON ARTICLE 8D.

6. PER PARA. 2 ABOVE, WE ARE PROPOSING THAT THE WORDS QUOTE AS REQUIRED CLOSE QUOTE AT THE END OF PARA. 8A6 BE REPLACED BY QUOTE IN THE EVENT THAT PRICE GUIDELINES ARE ESTABLISHED ON A DELIVERED COST BASIS CLOSE QUOTE. THIS CHANGE IS INTENDED TO CLARIFY THE CIRCUMSTANCES UNDER WHICH DELIVERY COSTS TO THE IMPORTING MARKET AND IMPORT DUTIES COULD BE INCLUDED. CHRISTOPHER

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